

PROPOSED RESOLUTION

Resolution W-5078
DWA

AGENDA ID #14581
Item #10 Rev. 1

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION W-5078
February 11, 2016

RESOLUTION

(RES. W-5078), CALIFORNIA WATER SERVICE COMPANY.
ORDER AUTHORIZING THE ADDITION OF A RECYCLED
WATER SERVICE AGREEMENT TO SERVE THE LOS
ALTOS SUBURBAN TARIFF AREA, PRODUCING
ADDITIONAL ANNUAL REVENUE OF \$326,476, OR 1.22%
OVER TOTAL REVENUES EARNED FOR TEST YEAR 2015,
TO BE PAID BY APPLE, INCORPORATED.

SUMMARY

By Advice Letter 2158, filed on March 16, 2015, California Water Service Company, a Class A water utility, seeks Commission authorization to establish a new tariff to provide recycled water to the Los Altos Suburban District.

This Resolution authorizes California Water Service Company to participate in the Wolfe Road Recycled Water Project and to establish a new tariff to provide recycled water to the Los Altos Suburban District. The addition of a new recycled water service tariff will lead to additional annual revenue of \$326,476 or 1.22%, over the total revenues earned in Cal Water's Los Altos Suburban District, to be paid by Apple, Incorporated for recycled water service.

As a consequence of approving California Water Service Company's Advice Letter 2158, initially 176 acre-feet of potable water will be replaced by recycled water, and at completion of Apple Incorporated's new facility by the end of 2016¹, an estimated 261 acre-feet of water will be replaced by recycled water. In addition, at the proposed rates and completion of the Apple facility, it is estimated that existing customers in California Water Service Company's Los Altos Suburban District will benefit from a recycled water revenue over-collection of \$57,290 annually.

¹ <http://www.cupertino.org/index.aspx?page=1223>, accessed February 5, 2016.

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BACKGROUND

In light of California's ongoing drought, as well as urbanization, population growth, and climate change, recycled water is recognized as an increasingly important component of the urban water supply portfolios of both publicly-owned and investor-owned water utilities. The California State Legislature declared that the use of recycled water for indirect potable use is critical to achieving the state board's goals for increased use of recycled water in the state. In response, the State Water Resources Control Board (SWRCB) adopted in May 2009 a Recycled Water Policy, calling for a significant increase in the use of recycled water and storm water. To adhere with such goals, on August 29, 2014, the Commission adopted Decision (D.) 14-08-058, policy framework for the production, distribution, and use of treated municipal effluent by investor-owned water and sewer utilities and provides minimum criteria requirements for both applications that seek approval of larger recycled water projects and for advice letters relating to smaller size recycled water projects.

The proposed Wolfe Road Recycled Water Project is an extension of Santa Clara Valley Water District's (SCVWD) existing non-potable recycled water distribution system that will bring approximately 1,095 acre-feet of disinfected tertiary recycled water² produced by the City of Sunnyvale (Sunnyvale), to Sunnyvale, SCVWD, and Apple, Incorporated (Apple) by way of California Water Service Company (Cal Water), to be used for landscape irrigation and industrial processing. Of the 1,095 acre-feet of recycled water delivered annually by the project, Cal Water will initially be allotted approximately 176 acre-feet per year to deliver to Apple. Once the full build-out of the Apple II Campus is complete, Cal Water's allotment of recycled water will increase to 261 acre-feet per year. The Wolfe Road Recycled Water Project includes the construction of recycled water pipeline along Wolfe Road, a booster pump station, and several other items.

In AL 2158, Cal Water requests a revenue increase of \$271,606, or 1.01%, over annual gross revenue for the Los Altos Suburban District in Test Year 2015. Cal Water filed AL 2158 as a Tier 3 AL in accordance with D. 14-08-058 on March 16, 2015. D. 14-08-058 provides a Tier 3 AL process for the review and approval of relatively straightforward, uncomplicated, and cost-limited recycled water projects that meet the following criteria:

² See California Code of Regulations (CCR), Title 22, § 60301.230.

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(1) the proposed project has a revenue impact of less than 5% of the proposing Investor Owned Water and Sewer Utility's (IOWSU) revenue requirement in the associated ratemaking area, (2) the proposed project does not require National Environmental Protection Act (NEPA) or California Environmental Quality Act (CEQA) review and/or the lead agency has completed and certified NEPA/CEQA review for the proposed project, and (3) the proposed project does not involve direct potable reuse as defined by Water Code Section 13560 et. seq.³

AL 2158 meets the Tier 3 AL criteria outlined in D. 14-08-058. Cal Water's estimated revenue increase associated with the Wolfe Road Recycled Water Project of \$271,606 represents 1.01% of the Los Altos Suburban District's last authorized revenue of \$26,765,300, pursuant to D. 14-08-011 for TY 2015.⁴ Sunnyvale is the designated lead agency under CEQA to review and analyze potential environmental impacts resulting from Wolfe Road Recycled Water Project, and the City of Cupertino is the lead agency for NEPA review. Sunnyvale adopted the Mitigated Negative Declaration for the Wolfe Road Recycled Water Project on September 24, 2013 and an Addendum to the Mitigated Negative Declaration for the Wolfe Road Recycled Water Project on September 30, 2014. Similarly, NEPA review has been completed and adopted by the City of Cupertino, as reported on September 23, 2014 by the SCVWD Board Agenda Memo. Lastly, in accordance with CCR, Title 22, Chapter 3, Article 3, the Wolfe Road Recycled Water Project intends to convey disinfected tertiary recycled water to the City of Sunnyvale, SCVWD, and Cal Water for landscape irrigation and industrial process use.

NOTICE AND SERVICE

In accordance with General Rules 4.3 and 7.2, and Water Industry Rule 4.1, of General Order 96-B, Cal Water served copies of AL 2158 to adjacent utilities and other parties requesting such notification, on March 16, 2015. In accordance with Water Industry Rule 3.3, Cal Water also posted the advice letter on its website.

³ Chapter 7.3 Direct and Indirect Potable Reuse Section 13560 (c) states that "Direct potable reuse" is defined as the planned introduction of recycled water either directly into a public water system, as defined upstream of a water treatment plant.

⁴ See Exhibit D, Page 1 of Appendix N, of D. 14-08-011.

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RESPONSE AND PROTESTS

One protest was received on April 6, 2015 by the CPUC's Office of Ratepayer Advocates (ORA). ORA protests AL 2158 on the grounds that (1) the analysis, calculations, and data in the AL contain material error or omission; and (2) the relief requested in the advice letter is unreasonable.

ORA recommends rejection of AL 2158 for the following reasons:

- 1) The Project Cost Effectiveness Analysis presented in AL 2158 does not provide the information required for a Tier 3 Advice Letter for a proposed recycled water project, as stated in D. 14-08-058;
- 2) Cal Water omits key information necessary for an accurate analysis of the proposed recycled water project, because Cal Water erroneously compares the proposed rates to a "no project" scenario, rather than comparing the proposed rates to a scenario where the Apple II Campus is supplied with potable water;
- 3) The relief requested in AL 2158 unreasonably requires Cal Water customers to bear the entire capital investment of a project that does not provide Cal Water customers with any additional infrastructure, since Cal Water's capital investment of \$1.5 million does not provide any significant infrastructure to Cal Water's system; and
- 4) The relief requested in AL 2158 is in violation of Rule 15. Rule 15, Section B.1 which states "extensions of water mains to serve new individual customers shall be paid for and contributed to the utility by the individual customer requesting the main extension." ORA contends that AL 2158 violates Rule 15 because the recycled water pipeline provides individual service to Apple Inc. and would not at this time serve other Cal Water customers.

In response to Items 1 and 2 of ORA's protests, Cal Water submitted a new cost-benefit analysis, comparing the Wolfe Road Recycled Water Project to two other scenarios: (1) a scenario in which the Apple II Campus is supplied solely with potable water, and (2) a scenario in which Apple's demand is met by potable and recycled water in fairly equal measures. Cal Water's revised cost-benefit analysis is reviewed in the Discussion section below.

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In response to Item 3 of ORA's protest, Cal Water stated that while its investment of \$1.5 million in the Wolfe Road Recycled Water Project yields minimal physical infrastructure, the Commission has authorized similar settlement agreements, where Cal Water was allowed to put a connection fee with the Antelope Valley East Kern River Agency into rate base (D. 12-08-011).⁵

Lastly, in response to Item 4, Cal Water states that it does not have a recycled water main from which a main extension can be made and contends that Rule 15 is not applicable to the request being made in AL 2158.

DISCUSSION

As discussed in D. 14-08-058⁶, the Commission and the State Water Resources Control Board encourage the use of recycled water as a means to provide new water sources where appropriate and reasonable.

Attachment B to D. 14-08-058 governs the data requirements for proposed recycled water projects that meet the Tier 3 AL eligibility criteria. The Commission's Division of Water and Audits (DWA) reviewed AL 2158 and determined that Cal Water has submitted the required information in accordance with Attachment B of D. 14-08-058. The following sections: (1) explain how AL 2158 meets the eligibility criteria for review as a Tier 3 AL; (2) summarize the proposed project; and (3) provide analysis regarding AL 2158's compliance with Attachment B of D. 14-08-058.

Project Description

The Wolfe Road Recycled Water Project is a four-way partnership between Sunnyvale, SCVWD, Cal Water, and Apple to install approximately 13,300 linear feet of 24" diameter recycled water pipeline, a booster pump station, several vaults, and other items necessary to deliver non-potable recycled water, as outlined in the Technical Memorandum attached to AL 2158. The projected start date for recycled water

⁵ See D. 12-08-011, Settlement Agreement p. 134-135.

⁶ See, pg. 5-6.

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conveyance to customers is October 2016. All parties to the partnership anticipate the project will be completed by December 2016.

The purpose of the Wolfe Road Pipeline Project is five-fold: (1) to increase regional water reliability and long-term sustainability by expanding a drought-proof water supply that is not subject to cutbacks from the State; (2) to expand the existing non-potable recycled water distribution system in the City of Sunnyvale; (3) to extend recycled water service to the City of Cupertino and Cal Water service areas; (4) to provide recycled water service to the Apple Campus II by October 2016; and (5) to help Santa Clara Valley Water District (SCVWD) reach its Board's policy position and goals relative to recycled water availability and distribution within Santa Clara County.

Structure of Proposed Project Transaction

In total, the Wolfe Road Pipeline Project will cost approximately \$17.6 million. SCVWD is responsible for the construction and plans for the design, location, and size of the project. Apple has agreed to design and construct, at its own expense, the Homestead Crossing Recycled Water Pipeline, which will connect to the pipeline along Wolfe Road. Apple has also agreed to design and construct three vaults that connect to the end of the Homestead Crossing Recycled Water Pipeline: two vaults for SCVWD and one for Cal Water, plus related appurtenances, such as valves, meters, and piping. It is the Parties' understanding that Apple will transfer ownership of the Homestead Crossing Pipeline and two SCVWD vaults to SCVWD, and the Cal Water vault to Cal Water, upon completion of construction.

Cal Water has agreed to pay SCVWD \$1.5 million towards the cost of construction of the Wolfe Road Pipeline Project, which will extend approximately 1.4 miles into Cal Water's service territory⁷. Cal Water will own all facilities downstream of the Cal Water Point of Connection located at the Cal Water vault.

Integrated Regional Water Management

The Wolfe Road Recycled Water Project is one of eight recycled water projects within the confines of the San Francisco Bay Area Integrated Regional Water Management

⁷ <https://www.google.com/maps>, accessed February 4, 2016.

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(IRWM) planning area. The Wolfe Road Recycled Water Project meets several of the IRWM's short-term and long-term goals, by expanding the use of non-potable recycled water across public and private partnerships.

Cal Water's Project Costs and Rate Base

Cal Water will invest \$1.5 million in the Wolfe Road Recycled Water Project. Cal Water's investment will be used to fund the construction of approximately 13,300 linear feet of 24" diameter recycled water pipeline, a booster pump station, three vaults, and other related appurtenances. Cal Water requests in AL 2158 that Cal Water's \$1.5 million investment in the proposed project be placed in rate base. At the completion of the Wolfe Road Recycled Water Project, Cal Water will own a vault, some pipeline from the Cal Water Point of Connection to the Apple Point of Connection, and a meter, which totals to \$1,500,000 in plant additions.

Of the entire Wolfe Road Recycled Water Project cost, Cal Water has agreed to pay for 8.5% of the project, for 261 acre-feet per year, or 23.8% of the demand at the full build-out of the Apple II Campus.

Though Cal Water's investment yields minimal physical infrastructure, Cal Water states that Commission has authorized similar settlement agreements where Cal Water was allowed to put a connection fee with the Antelope Valley East Kern River Agency (AVEK) into rate base pursuant to D. 12-08-011. In D. 12-08-011, AVEK imposed a connection fee on Cal Water equivalent to what Cal Water would have paid AVEK for connection to its Lancaster system. The Commission ruled that the connection fee paid for by Cal Water was allowed to be placed into rate base. Similarly, in the event of the Wolfe Road Recycled Water Project, the \$1.5 million connection fee that SCVWD is charging Cal Water is significantly lower than what Cal Water would have had to pay for connection to SCVWD's recycled water system. Based on cost estimates given in Attachment H of the Tech Memo, approximately 1.4 miles of 24" pipeline, not including construction costs or any related appurtenances, is valued at \$3,259,872⁸.

⁸ Attachment H of the Tech Memo submitted by Cal Water in AL 2158 states that the unit cost of 24" pipeline is \$441/LF.

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The connection fee levied on Cal Water by SCVWD provides financial benefit to Cal Water, and also brings recycled water pipeline into Cal Water's service territory, which provides opportunities for system-wide connection in the future. Furthermore, the provision of recycled water to the Apple Campus II provides system-wide benefits by freeing up potable water for non-recycled water customers.

Cal Water states that its investment should be considered akin to a "connection fee" required to obtain access to a new water source. DWA concurs, and recommends that Cal Water's \$1.5 million investment in the Wolfe Road Recycled Water Project should be placed into rate base. We agree.

As requested in AL 2158, Cal Water should depreciate its \$1.5 million investment at a rate of 1.70%, which is the authorized depreciation rate used for pipelines in accordance with Exhibit B of D. 14-08-011.

Project Cost-Effectiveness and Revenue Requirement

In compliance with D. 14-08-058, Cal Water submitted a cost-benefit analysis of the Wolfe Road Recycled Water Project in AL 2158. The analysis in AL 2158 compared the Wolfe Road Recycled Water Project to a non-project scenario, where the Apple II Campus would not be built. ORA found Cal Water's analysis insufficient, and in response, Cal Water compared the proposed revenue requirement under the Wolfe Road Recycled Water Project to (1) the revenue requirement where the Apple II Campus would be supplied solely with potable water and (2) the revenue requirement where Apple would be served with potable and recycled water in roughly equal measures. For the all-potable scenario, Cal Water estimates a revenue requirement of \$167,006. Similarly, under the Wolfe Road Recycled Water Project, Cal Water estimates a revenue requirement of \$208,027.

Cal Water's cost-benefit analysis considered the differences in revenue requirement due to plant additions for recycled water and potable infrastructure, but did not consider the impact of purchased water, purchased power, or treatment expenses on revenue requirement, potable water consumption and its associated costs under the Wolfe Road Recycled Water Project, or energy use and GHG emissions. ORA submitted revisions to Cal Water's cost-benefit analysis on February 3, 2016 in Attachment 1 to ORA's comments on the draft Resolution. In the event that Apple Campus II was supplied entirely by potable water, ORA assumed capital investments would be made, as estimated by Cal Water, to increase the existing supply. Furthermore, under the same

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scenario, ORA estimated that purchased power and chemical costs would increase, in accordance with estimates made by DWA. This all-potable scenario was compared to revenue requirement needed if the Wolfe Road Recycled Water Project was put in place. Using similar methodology, ORA estimated that the recycled water revenue requirement must include the purchased power and chemical costs of supplying 344 CCF of potable water, a \$1.5 million investment in recycled water plant, and operating expenses required to supply recycled water. Ultimately, ORA found that total consumption of 520 acre-feet results in a revenue requirement of \$385,042 for the proposed recycled water project, and a revenue requirement of roughly \$212,704 for an all-potable scenario. Similarly, at the full build out of the Apple Campus II, the revenue requirement will be \$448,462 under the consumption of 261 acre-feet of recycled water. The revenue requirement calculated in the above scenarios accounts for both total water use, including both potable and non-potable water, and therefore should be used only for comparative purposes.

Similar methods were used to compute the revenue requirement for recycled water alone. Assuming an investment of \$1.5 million and the same operating expenses used by ORA, the revenue requirement for the addition of recycled water is \$354,811.

In terms of GHG emissions and energy use, Sunnyvale's CEQA review found that the Wolfe Road Recycled Water Project reduces overall electricity consumption and GHG emissions produced by water transport. Sunnyvale's CEQA review estimates that 0.12 metric tons of carbon dioxide emissions are avoided for each acre-foot of groundwater that is replaced with recycled water for all regions serviced by the Wolfe Road Recycled Water Project. At the average price of carbon allowance futures in California in 2015 of \$12.77/metric ton, the amount of GHG emissions saved can be valued at \$269.70 for 176 CCF of recycled water used, and \$399.96 for 261 CCF.⁹

Conclusion of Cost-Benefit Analysis

D.14-08-058 acknowledges that there may be specific cases where a recycled water project would be reasonable even though it may not be cost-effective. Accordingly, though the revenue requirement associated with the Wolfe Road Recycled Water Project is higher than an all-potable water scenario, Cal Water's \$1.5 million investment

⁹ <http://calcarbondash.org/>, accessed February 4, 2016.

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in the Wolfe Road Recycled Water Project is prudent because 1) if Cal Water had designed, built, and constructed recycled water pipeline on its own, the price of approximately 1.4 miles' worth of 24" pipeline would have been \$3.26 million, not including the costs of related appurtenances and construction. By partnering with SCVWD and paying SCVWD \$1.5 million to expand its recycled water pipeline into Cal Water's territory, Cal Water provides significant benefits to its customers by reducing the costs of obtaining recycled water and by providing the opportunity for recycled water expansion within the Los Altos Suburban District. Furthermore, Cal Water's \$1.5 million investment in the Wolfe Road Recycled Water Project is prudent because the project 2) frees up potable water for non-recycled water customers to use, 3) meets water conservation goals set by Executive Order B-29-15 and SCVWD by replacing approximately 33.8% of Apple's expected potable water consumption with recycled water, and 4) reduces GHG emissions over the project's entire lifespan.

Rate Design

In AL 2158, Cal Water requests a monthly service charge of \$198.94 and a quantity charge of \$3.5116/CCF. In Attachment F of AL 2158, Apple has agreed to pay Cal Water the established potable water rates for recycled water service upon completion of the Wolfe Road Recycled Water Project. As authorized in AL 2197-C effective January 1, 2016, the rates are \$4.2272/CCF and \$199.62/month for a 3" non-residential potable water meter. Cal Water's and Apple's rationale for using the established potable rates for recycled water is that recycled water rate structure information does not exist in the surrounding areas, thus leaving no basis for comparison. Additionally, by pricing potable and recycled water at the same rate, the cost of recycled water is discounted since the recycled water revenue requirement warrants higher revenues than the revenues collected under the proposed rates.

D.14-08-058 states that one of the main challenges under existing recycled water regulations is that a separate distribution system is needed for the conveyance of recycled water, which can potentially require a substantial investment and make recycled water projects less cost-effective if the investment is strictly recovered from customers that take recycled water service. Consequently, Water Code § 13580.8 explicitly allows the IOWSUs' to recover revenue shortfalls that result from discounting recycled water from general metered customers.

Therefore, Cal Water proposes that revenue under- and over-collections are tracked using the Water Revenue Adjustment Mechanism (WRAM). Cal Water also proposes

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placing purchased recycled water expenses into a Modified Cost Balancing Account (MCBA). The MCBA was created in conjunction with the WRAM with the intention of making utilities whole due to lost revenues from potable water conservation. In the case of the Wolfe Road Recycled Water Project, the under- or over-collection of recycled water revenues from Apple will be used to apply a surcharge or surcredit to all non-recycled water customers (i.e., potable water users) in the Los Altos Suburban service area.

Since Cal Water's estimated recycled water net revenue requirement of \$208,027 does not account for operational expenses associated with purchasing recycled water from SCVWD, Cal Water will initially experience a net under-collection of approximately \$28,335 under rates of \$4.2272/CCF and \$199.62/month at Apple's near-term draw of approximately 176 acre-feet/year of recycled water. However, at the full build out of Apple Campus II, which is expected to occur by the end of 2016, Apple's recycled water consumption is expected to increase to approximately 261 acre-feet/year, resulting in a net over-collection of \$57,290 under the same quantity and service charge rates¹⁰. Though Cal Water will most likely under-collect at the near-term draw until the Apple Campus II is complete and operational, the Apple Campus II will be fully operational by the end of 2016, which results in a short period of under-collection. The over-collection will ultimately benefit non-recycled water ratepayers, by providing long-term refunds to incentivize potable water conservation.

Therefore, DWA recommends that the quantity and service rates for recycled water be set at \$4.2272/CCF and \$199.62/month, respectively, and any under- or over-collection in recycled water revenue is charged or credited to non-recycled water ratepayers through the WRAM/MCBA. We agree.

The service charge will be updated in Cal Water's general rate case application or in the attrition filings authorized in its general rate case decision based on the remaining undepreciated rate base or additions in the number of Cal Water customers being served from the Wolfe Road Recycled Water Project. Changes in the cost of wholesale recycled water reflected in the quantity rate should be adjusted as required through

¹⁰ <http://www.cupertino.org/index.aspx?page=1223>, accessed February 5, 2016.

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purchased water offset filings. We concur with DWA's proposed rate design for Cal Water's investment in the Wolfe Road Recycled Water Project.

SAFETY, COMPLIANCE, AND CONSERVATION

In terms of safety, SCVWD has contractually obligated Sunnyvale to deliver recycled water to the Wolfe Road Recycled Water Project that meets or exceeds the requirements set forth in the disinfected tertiary recycled water quality and monitoring regulations, specified in Title 22, Division 4, Chapter 3 of the California Code of Regulations Water Reclamation Criteria, as well as by the California Regional Water Quality Control Board, San Francisco Bay Region, the California Department of Drinking Water, and all other federal, state, and local agencies having jurisdiction over recycled water quality.

Sunnyvale and the City of Cupertino have obtained several encroachment permits in accordance with federal, state, and local agency requirements. For environmental compliance, Sunnyvale is designated as the lead agency for CEQA review, and the City of Cupertino is designated as the lead agency for NEPA review.

Based on CEQA/NEPA review, Sunnyvale has prepared a Mitigated Negative Declaration to reduce significant effects to the environment as a result of the project. To minimize and avoid potential direct and indirect impacts to migratory bird species in conformance with the Migratory Bird Treaty Act, pre-construction surveys will be conducted for construction activity. Additionally, initial site investigations will be conducted to confirm contaminated soil and groundwater in areas that will be excavated. Any hazardous materials encountered will be handled in compliance with all applicable laws and regulations.

Lastly, in terms of water conservation, Cal Water's investment in the Wolfe Road Recycled Water Project initially reduces Apple's potable water consumption by approximately 33.8%, by supplying Apple with 176 acre-feet of recycled water. At the full build-out of the Apple Campus II, the Wolfe Road Recycled Water Project will reduce Apple's potable water consumption by approximately 50.2%, by supplying Apple with 261 acre-feet of recycled water. Aside from reducing Apple's potable water consumption, Cal Water's investment contributes to long-term drought management solutions not only to ratepayers of the Los Altos Suburban District, but also to Sunnyvale and SCVWD. We also note that the use of recycled water as an alternative to potable water use is consistent with the policies enumerated in D. 14-08-058.

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COMMENTS

Public Utilities Code section 311(g)(1) requires that a proposed resolution be served on all parties, and be subject to a public review and comment period of 30 days or more, prior to a vote of the Commission on the resolution.

Accordingly, this proposed resolution was mailed to the utility and its service list, and made available for public comment on December 29, 2015.

Late filed comments on the proposed Resolution were received by ORA on February 3, 2016. In its comments, ORA stated that: 1) the proposed Resolution unreasonably requires Cal Water customers to bear the entire capital investment of a project that does not provide Cal Water customers with any additional infrastructure, 2) the additional analysis performed by DWA contains errors which disguise the true impact of the \$1.5 million investment on Cal Water customers, and 3) Apple should pay for the additional infrastructure required to serve recycled water to its Apple II Campus or Cal Water should negotiate an agreement in which its \$1.5 million capital investment results in capital infrastructure with system-wide benefits.

ORA's comments have been incorporated into this resolution and addressed.

FINDINGS

1. By Advice Letter (AL) 2158, filed on March 16, 2015, California Water Service Company requested the addition of a recycled water service agreement to serve the Los Altos Suburban District.
2. California Water Service Company (Cal Water) has entered into a cost sharing and service agreement in February 2015 with Santa Clara Valley Water District (SCVWD) to receive recycled water from SCVWD by investing in the Wolfe Road Recycled Water Project. Cal Water has also entered into a cost sharing and service agreement with Apple, Incorporated (Apple) to serve the Apple Campus II with recycled water from the Wolfe Road Recycled Water Project. Apple will be Cal Water's only customer receiving recycled water in the Los Altos Suburban District for the time being.
3. The Wolfe Road Recycled Water Project involves the construction of a pump station, pipeline, and additional infrastructure, in order to convey recycled water

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from the City of Sunnyvale to SCVWD as well as Apple, Inc., by way of Cal Water. The Wolfe Road Recycled Water Project will cost \$17.6 million to design and construct, and will convey 1,095 acre-feet per year of disinfected tertiary recycled water upon completion of the project.

4. Cal Water has agreed with SCVWD to invest \$1.5 million in the Wolfe Road Recycled Water Project. Cal Water will initially be allotted 176 acre-feet of recycled water to supply Apple, and will be allotted 261 acre-feet per year of recycled water upon build-out of the Apple Campus II. Upon completion of the Wolfe Road Recycled Water Project, Cal Water will own and maintain a vault, some pipeline, valves, and a meter, all constructed by Apple, from Cal Water's Point of Connection to Apple's Point of Connection.
5. On April 6, 2015, the Office of Ratepayer Advocates filed a protest to AL 2158 on the grounds that (1) the analysis, calculations, and data in the AL contain material error or omission; and (2) the relief requested in the advice letter is unreasonable.
6. Division of Water and Audits (DWA) reviewed ORA's protest and Cal Water's response to ORA's protest and finds Cal Water's response to be satisfactory.
7. In accordance with Attachment B of Decision (D.) 14-08-058, Cal Water has submitted the proper documents required to file a Tier 3 AL requesting the addition of a recycled water service agreement.
8. In AL 2158, Cal Water estimates that the revenue requirement associated with supplying recycled water to Apple will be \$208,027.
9. DWA and ORA disagree with Cal Water's estimated revenue requirement and several of Cal Water's calculations in its cost-benefit analysis of the Wolfe Road Recycled Water Project. DWA and ORA find that the cost-benefit analysis is incomplete since no operational expense estimates associated with supplying potable and non-potable water were taken into account.
10. Using SCVWD's wholesale rate for recycled water and operational expenses from Exhibit D of D. 14-08-011, ORA estimates that Cal Water's revenue requirement under the Wolfe Road Recycled Water Project is \$385,042 per year, and Cal Water's revenue requirement under a no project scenario, where Apple

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Campus II receives only potable water, is roughly \$212,704, if Apple consumes 176 acre-feet of water.

11. DWA finds Cal Water's investment in the Wolfe Road Recycled Water Project reasonable in terms of cost, water management, energy use, and GHG emissions.
12. Cal Water should depreciate its \$1.5 million investment in the Wolfe Road Recycled Water Project at a depreciation rate of 1.70%
13. DWA recommends that the recycled water quantity charge be set at the current non-residential metered rates as established in Advice Letter 2197-C effective January 1, 2016. The quantity rate should be \$4.2272/CCF and the service charge should be \$199.62/month for a 3" meter.
14. DWA recommends that under- or over-collected revenue from recycled water service will be placed into the Water Revenue Adjustment Mechanism/Modified Cost Balancing Account. Surcharges and surcredits will be made to non-recycled water ratepayers in Cal Water's Los Altos Suburban District.
15. In terms of safety, compliance, and conservation, SCVWD will supply Cal Water with disinfected tertiary recycled water compliant with federal, state, and local agency regulations. CEQA and NEPA review have shown that potential environmental effects by the Wolfe Road Recycled Water Project will be mitigated using strategies prepared in the Mitigated Negative Declaration. The Wolfe Road Recycled Water Project will reduce Apple's water consumption by 33.8% initially, and by 50.2% at the full build out of Apple Campus II.
16. Apple's use of recycled water as an alternative to potable water use is consistent with the policies enumerated in D. 14-08-058.

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THEREFORE IT IS ORDERED THAT:

1. California Water Service Company is authorized to participate in the Wolfe Road Recycled Water Project, as outlined in California Water Service Company's agreements with Santa Clara Valley Water District and Apple, Incorporated.
2. Authority is granted under Public Utilities Code Section 454 to California Water Service Company to file a Tier 1 Advice Letter with the revised tariff schedule attached to this Resolution as Appendix A no later than thirty (30) days prior to recycled water service beginning. The effective date of the revised schedules shall be five days after the date of filing.

This Resolution is effective today.

I certify that the foregoing Resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on February 11, 2016; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director

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February 11, 2016 Rev. 1

APPENDIX A

SCHEDULE NO. LS-RW Los Altos-Suburban Tariff Area **RECYCLED WATER SERVICE**

(N)

APPLICABILITY

Applicable to metered recycled water use at the Apple Campus II in Cupertino, California.

TERRITORY

City of Cupertino in Santa Clara County.

RATES

Quantity Rates:

Per 100 cubic feet.....\$4.2272

Service Charge:

Per Meter

Per Month

For 3-inch meter.....\$199.62

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is added to the quantity charge computed at the Quantity Rates.

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fees set forth on Schedule UF.
2. Recycled water will be supplied only as available from the City of Sunnyvale through the Wolfe Road Recycled Water Pipeline.
3. As a condition of service under this schedule, all customers are required to comply with the Company's Tariff Rule 16, **Section D**, regarding Reclaimed Water Service.

(N)

END OF APPENDIX A

CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail, this day, served a true copy of Proposed Resolution No. W-5078 on all parties in these filings or their attorneys as shown on the attached lists.

Dated January 8, 2016, at San Francisco, California.

/s/ JENNIFER PEREZ

Jennifer Perez

Parties should notify the Division of Water and Audits, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

CALIFORNIA WATER SERVICE COMPANY- Los Altos-Suburban District

Advice Letter No. 2158

SERVICE LIST

Darin T. Duncan
Manager of Rates
California Water Service Company
1720 North First St.
San Jose, CA 95112-4598

City of Santa Clara, Water Dept.
Attn: Alan Kurotori
Water and Sewer Utilities
1500 Warburton Ave.
Santa Clara, CA 95050

Municipalities and Governmental Agencies

City of Cupertino
Attn: Timm Borden
10300 Torre Avenue
Cupertino, CA 95014-3202

City of Palo Alto, City Hall
Attn: Catherine Cox
250 Hamilton Ave.
Palo Alto, CA 94301
Email: Catherine.cox@cityofpaloalto.org

Other Parties Requesting Notification

City of Los Altos
Attn: Jim Gustafason
1 North San Antonio Rd.
Los Altos, CA 94022

Great Oaks Water Company
15 Great Oaks Blvd. #100
San Jose, CA 95119
Email: bloehr@greatoakswater.com

Town of Los Altos Hills
Attn: Carl Cahill
26379 Fremont Road
Los Altos Hills, CA 94022

Santa Clara Valley Water District
5750 Almaden Expressway
San Jose, CA 95118
Email: dtaylor@valleywater.org

Adjacent Private and Public Utilities

San Jose Water Company
Attn: Palle Jensen
374 W. Santa Clara St.
San Jose, CA 95196
Email: palle.jensen@sjwater.com

Service Area Maps Only

Purissima Hills County Water District
Attn: Patrick D. Walter
26375 Fremont Rd.
Los Altos, CA 94022
Email: pwalter@purissimawater.org

LAFCO of Santa Clara County
Neelima Palacherla, Executive Director
70 W. Hedding St. 11th Floor
San Jose, CA 95110
Email: neelima.palacherla@ceo.sccgov.org

Fire Department Serving Affected Area

State

City of Mountain View, Water Dept.
231 N. Whisman Rd.
Mt. View, CA 94043
Email: will.medina@mountainview.gov

Lisa Bilir
Lisa.Bilir@cpuc.ca.gov

City of Sunnyvale, Water Dept.
Attn: Val Conzet, Water Operations Manager
P.O. Box 3707
Sunnyvale, CA 94088-3703
Email: vconzet@ci.sunnyvale.ca.us
jerry@ci.sunnyvale.ca.us

Office of Ratepayer Advocates
ora@cupc.ca.gov